News Release

Colliers INTERNATIONAL

The 172 million strong consumer market of the CEE-17[i] region should continue to deliver better growth rates and returns than more developed markets in retail and other sectors according to the "ExCEEding Borders | CEE-17 Retail in the times of the Pandemic" just released by Colliers International

Key findings of the report:

- When comparing the COVID -19 crisis to the recession following the GFC, retail sales have seen a robust V-shaped recovery in a lot of cases
- Labour markets in the CEE region, as well as purchasing power, seem to be in much better shape this time around than a decade ago
- A sharp increase in consumer activity in e-commerce has become a fundamental element of the ongoing transformation of the retail sector
- Across the CEE region, the share of online sales varies quite considerably from early single digits in some countries, up to >18% in the Czech Republic
- There was a 20-45% decline in footfall figures in shopping centres based on the data from the middle of 2020 compared to the corresponding period of 2019.
- There were several up-market brand debuts, including Hugo Boss (Albania), Yves Saint Lauren, Dsquared, Chanel (Czech Republic) and Armani Beauty (Romania).

Bratislava, December 17, 2020 The COVID-19 pandemic has disrupted both the operation and development of retail real estate markets worldwide, as well as in the CEE-17 countries. The Government restrictions imposed on the operation of shops, service outlets, gastronomy, entertainment and leisure, have led to a dynamic growth of e-commerce sales and to changes in consumer behaviour. These have also contributed to a 20-45% (depending on the country) decline in footfall figures in shopping centres, when we compared data from the middle of 2020.

CEE-17 economies coming back to life much faster

Silviu Pop, Head of Research, Romania explains: “We analyzed the IMF’s forecasts of unemployment to assess the state of the labour markets. We looked at 2021 compared to 2019 and 2010 compared to 2008 We skipped the recession year to get a clearer grasp on how things might look like in the first year of the recovery. With a couple of exceptions, the jump in unemployment is set to be much lower this time around; the exceptions are Romania and Belarus, though both had tighter labour markets to begin with than compared to 2008”.

A robust V-shaped recovery

Given that labour markets have been in decent shape and money flowed in the economy, it is no surprise that retail sales have seen a robust V-shaped recovery in a lot of cases. Compare this to the recession following the GFC, when it took retailers quite a few years to get things back on track. Since the consumption of food is much more inelastic to changes in disposable income, we looked at non-food retail sales for 15 out of the 17 countries available in this report to gauge consumer strength (Ukraine and Belarus had no similar methodology available). In 6 out of these countries (Estonia, Lithuania, Poland, Romania, Serbia and Slovakia) October 2020 sales of non-food items excluding fuel was higher than before the crisis. Another 5 countries (Croatia, Czechia, Hungary, Latvia and Slovenia) displayed a percentage gap that they needed to recover in the low single digits, in the 1-3% range, quite impressive given the scale of the drop of sales in the spring period.

Consumer habits

Dominika Jędrak, Director, Research and Consultancy Services, Poland explains: “We are observing a sharp increase in consumer activity in e-commerce which has become a fundamental element of the ongoing transformation of the retail sector, related to the development of technology and changes in consumer behaviour. There has also been a significant increase in the percentage of people over the age of 55, who are now shifting from shopping in off-line to on-line stores.

To try and better comprehend these shifts we used the Google Trends tool to analyse what items people have been searching for on Google in the CEE-6 (Poland, Czech Republic, Slovakia, Hungary, Romania, Bulgaria).”

Sports is one such category where things seemed to have changed a lot. As people were stuck in the city and their own homes for extended periods of time, they started to value sporting activities and spending more time in nature. Hence, the interest in bicycles and camping equipment hit record highs throughout most of the CEE in the first part of 2020.

Due to the numerous limitations impacting the **gastronomy** sector, we have tended to eat at home more often than before, either by preparing our meals or ordering them online. Our social nature and the desire to have 'someone else cook' may well give the gastronomic sector some hope.

Another special category which has seen significant increases is that of **health expenditures**. The word "thermometer" has popped up in Google searches 5 to 6 times more than a year ago during spring months in most countries.

Multi-Channel, Omni-Channel and E-Commerce

Kevin Turpin, Regional Director of Research | CEE explains: "Many retailers do operate other channels, but quite often the brick-and-mortar stores make up the largest part of their revenue and operational network. This year, if not already before, has revealed how flawed some models are. Online market places are already proving to be a saving grace for some brands, and depending on the retail segment there are also specialists that complement the goods on sale, such as Zalando for example, who are one of the global marketplace leaders in fashion and footwear.

Retailers need to get on that E-commerce rocket ship before it blasts-off and becomes unreachable. It's not too late, but again, to do it right will take time, know-how and investment and that needs to be prioritized if not already underway."

Omni-Channel model is a seamless 'experience' for the consumer, no matter how they come in to contact with the brand or products, they understand it, it is comfortable and is why they will most probably keep coming back. Omni-channel models also provide highly valuable insights to retailers into consumer behaviour and feedback on their products and services.

Across the CEE region, the share of online sales varies quite considerably from early single digits in some countries, up to >18% in the Czech Republic. This year, the majority of these figures have grown at historically fastest ever rates, but this still leaves more than 80% of the sales in other channels.

There are a few other factors at play in the retail sector which have still yet to be resolved to create more balance:

- many retailers are present through a franchise partner, who may also operate several brands. Quite often franchise partners do not have control or the rights to the e-commerce platform of the parent brand, thus limiting their ability to sell online.
- Another factor can be geographical, where some platforms cannot sell across certain borders
- Many retailers are also trying to drive consumers towards the click&collect option where there is more control, and where additional purchases are likely to be made on top.

Retail Property Market in CEE 17 – key figures

The shopping center market in the CEE-17 is consists of almost 1,670 facilities, with a total GLA of over 34.6 million m^2 GLA, serving over 172 million consumers. The size of this market is also reflected in the annual purchasing power of the population with a total value of EUR 893 billion. It should however be noted that the purchasing power of Central and Eastern European consumers is very diverse. Among the 17 countries analysed there are those with a purchasing power of 9,500-12,500 EUR per capita per year (Slovenia, Estonia, Czech Republic, Poland, Slovakia, Lithuania,) but also those with 1,500-3,500 EUR per capita per year (Ukraine, Belarus, Albania, Bosnia and Herzegovina).

The shopping center markets in the CEE-17 are also at different stages of development. The highest saturation of space per 1,000 inhabitants is recorded in Estonia (738 m^2) with the lowest being in Albania (104 m^2).

The highest volume of retail space is located in Poland (12.1 million m^2 in 532 facilities) and the Czech Republic (4.2 million m^2 in 232 facilities) with the smallest being in Montenegro (110,000 m^2 in 14 centers).

There has been an increase in the number of small shopping centre formats and retail parks, considered by both developers and tenants as profitable investments, and by consumers as comfortable and safe places to shop. At present, there are approximately 670 such centres operating in the CEE-17 countries, with a total GLA of 6 million m^2. The largest number of small schemes (5-10 000 m2 GLA, over 10 units) operate on the highly competitive shopping centre markets in Poland (1.2 million m^2 of GLA, in 164 schemes). Having said this we can assume that in the coming years the main type of retail investments will be small convenience centres/parks.

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[i] In this report, we focus on the CEE-17 countries: Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Montenegro, Poland, Romania, Serbia, Slovakia, Slovenia and Ukraine.